EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY MANOR CARE OF MEADOW PARK PROPOSING TO ESTABLISH A 120-BED SKILLED NURSING CENTER WITHIN THURSTON COUNTY

PROJECT DESCRIPTION

Manor Care, Inc. is a Delaware Corporation with a principle place of business at 333 North Summit Street, in the city of Toledo, within the state of Ohio. It is not registered in Washington State, rather it is the parent company of four subsidiaries, one of which is registered in Washington.[1] [source: Business Risk Assessment Analysis, p2]

Heartland Employment Services

An Ohio corporation registered in the state of Washington. Heartland Employment Services is a direct employer of all corporate and support employees. The corporation does not own or operate any health care facilities, however, a branch of this entity owns and operates home care agencies throughout the United States.

HCRC, Inc.

A Delaware corporation that is not registered in Washington State. HCRC, Inc. is a subsidiary of Heartland Employment Services and the parent company of Health Care and Retirement Corporation of America, which is the direct owner and operator of a number skilled nursing facilities and the parent of subsidiaries that own and operate nursing home facilities.

MNR Finance Corporation

Another Delaware corporation that is that is not registered in Washington State and does not own or operate any skilled nursing facilities.

Manor Care of America, Inc

Also a Delaware corporation not registered in Washington State and the parent corporation of Manor Care Health Services, Inc., another Delaware corporation. Manor Care Health Services, Inc. is the direct owner and operator of several skilled nursing facilities and the parent corporation of subsidiaries that own and operate nursing home facilities. Manor Care Health Services, Inc. is not registered in Washington State, however, it is the parent corporation of Manor Care of Meadow Park, Inc, which is registered in Washington.

As of the writing of this evaluation, Manor Care, Inc. is the second largest provider of long term services in the nation. Through its subsidiaries, Manor Care, Inc. owns, operates, or manages over 500 healthcare facilities, which includes skilled nursing centers, assisted living facilities, outpatient rehabilitation clinics, and hospice and home health offices across the nation. For nursing homes and assisted living facilities alone, Manor Care owns or operates over 300 in 32 states through its subsidiaries. For Washington State, Manor Care, Inc. owns and operates four skilled nursing facilities through its Manor Care of Meadow Park subsidiary; and the Heartland subsidiary owns and operates a home care agency and a Medicare certified home health agency in the state. The Washington State facilities and city of location are shown in the chart below. [source: December 1, 2004, supplemental information, pp1-2; Manor Care Website at www.hcr-manorcare.com]

Skilled Nursing Facilities	Home Care and Home Health Agencies
Manor Care of Gig Harbor, Gig Harbor	Heartland Home Care, Seattle
Manor Care Health Services, Lynnwood	Heartland Home Health Care Services, Seattle
Manor Care Health Services, Spokane	
Manor Care Health Services, Tacoma	

[1] HCR ManorCare is the trade name used by the parent company, but it is not a legal entity.

Manor Care of Meadow Park, Inc

Through its subsidiaries, the healthcare facilities owned, operated, or managed by Manor Care, Inc. are grouped geographically, rather than corporately, into seven operating divisions:

Mid-Atlantic Midwest Mid-States East **West** South Central

Washington State is located in the West division [in bold above], and includes facilities owned and operated by Manor Care Health Services, Inc. or its subsidiary, Manor Care of Meadow Park, Inc. This application was submitted by Manor Care of Meadow Park, Inc. [source: December 1, 2004, supplemental information, pp1-2] For Certificate of Need purposes, Manor Care of Meadow Park, Inc. is considered the applicant, and will be referenced in this document as "MCMP."

This project proposes to establish a fifth skilled nursing facility (SNF) in Washington under the MCMP subsidiary. The proposed SNF would have 120 beds and be located at 4528 Intel Loop Southeast in the city of Lacey, within Thurston County. The planning area for this project is Thurston County. The proposed SNF will be a 53,000 square foot, one-story building, with 20 private rooms, 50 semi-private rooms, two nurses stations, physical therapy, occupational therapy, speech therapy, recreational therapy space, resident lounges, dining rooms, beauty/barber shop, a kitchen, administrative offices and support areas. [source: January 18, 2005, supplemental information, Appendix A, p4] For this evaluation, the proposed SNF will be referenced as "MC-Lacey."

The anticipated date of commencement of construction of the facility is August 1, 2006, with an estimated date of completion of December 2007. The facility is expected to begin serving patients January 1, 2008. Therefore, the first full year of operation is projected to be calendar year 2008. [source: January 18, 2005, supplemental information, Appendix A, p4]

The estimated capital expenditure for this project is $11,871,545, of which 57% is related to constructions costs; 14% is related to land purchase; 13% is related to equipment costs; 7% is related to corporate overhead; 5% is related to state sales tax; and the remaining 4% is related to fees and real estate taxes. [source: January 18, 2005, supplemental information, Appendix E]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a) and 246-310-380.

APPLICATION CHRONOLOGY

August 26, 2004	Letter of Intent Submitted
September 30, 2004	Application Submitted
October 1, 2004 through February 15, 2005	Department's Pre-Review Activities • 1st screening activities and responses • 2nd screening activities and responses
February 16, 2005	Department Begins Review of the Application • public comments accepted throughout review
March 23, 2005	Public Hearing Conducted/End of Public Comment
April 22, 2005	Rebuttal Documents Received at Department
June 6, 2005	Department's Anticipated Decision Date
December 9, 2005	Department's Actual Decision Date

CONCURRENT REVIEW AND AFFECTED PERSONS

As directed under WAC 246-310-130(5)(c), the department accepted this project under the 2004 nursing home current review cycle for Thurston County. In accordance with CN Program policy, when applications initially submitted under a concurrent review cycle are deemed not to be competing, the department has converted the review to the regular review process. Given that this application was the only application received under the concurrent review cycle for Thurston County, the application was converted to a regular review.

Throughout the review of this project, five entities sought and received affected person status under WAC 246-310-010. All of the entities are community based skilled nursing centers located in Thurston County.

- Roo-Lan HealthCare Center, Lacey;
- Panorama City, Lacey;
- Providence Mother Joseph Care Center, Olympia;
- Puget Sound Healthcare, Olympia; and
- Hilltop Healthcare, Olympia.

SOURCE INFORMATION REVIEWED

- Manor Care of Meadow Park, Inc.'s Certificate of Need Application received September 29, 2004
- Manor Care of Meadow Park, Inc.'s supplemental information dated December 1, 2004, January 18, 2005, February 17, 2005
- Public comment received during the course of the review
- Comments received at the public hearing on March 23, 2005
- Rebuttal comments received from Manor Care of Meadow Park, Inc. dated April 20, 2005
- Rebuttal comments received from Roo-Lan HealthCare Center dated April 22, 2005
- Population data obtained from the Office Financial Management based on year 2000 census published January 2002
- Data obtained from the US Census Bureau website http://quickfacts.census.gov
- Years 2003 and 2004 Medicaid cost report data provided by the Department of Social and Health Services
- Years 2003 and 2004 CHARS data provided by the Department of Health's Office of Hospital and Patients Data Systems
- Licensing and/or survey data provided by the Department of Social and Health Services
- Data obtained for nursing homes, adult family homes, and boarding homes from Department of Social and Health Services website www.aasa.dshs.wa.gov
- Business Risk Assessment review received June 22, 2005, from the Department of Social and Health Services' Office of Financial Recovery
- Information obtained from the applicant's website at www.hcr-manorcare.com
- Certificate of Need Historical files
- Adult Family Home and Boarding Home Data obtained by The Gilmore Research Group received October 2005
- Revised Code of Washington 70.127 governing in-home service agencies

CRITERIA EVALUATION

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment) and WAC 246-310-360 (nursing home bed need method).[2]

CONCLUSION

For the reasons stated in this evaluation, the application submitted by on behalf of Manor Care of Meadow Park is consistent with applicable criteria of the Certificate of Need Program, provided the applicant agrees to the following terms:

> Prior to commencing the project, Manor Care of Meadow Park must provide a copy of the executed Purchase Agreement to the department for review and approval. The executed agreement must be consistent with the draft agreement provided in the application.
>
> Prior to providing services at MC-Lacey, the applicant will provide functional plans outlining the services to be provided through a national contract with Manor Care, Inc. and those that would be provided within Thurston County.

The approved capital expenditure associated with the establishment of a new, 120-bed skilled nursing facility in Thurston County is $11,871,545.

[2] Each criterion contains certain sub-criteria. The following sub-criteria are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6) and WAC 246-310-240.

A. Nursing Home Bed Need Method (WAC 246-310-360)

For all applications where the need for nursing home beds is not deemed met as identified in RCW 70.38.115(13), the [following] mathematical calculation will be used as a guideline and represent only one component of evaluating need.

As stated in the project description portion of this evaluation, the proposed SNF would be an additional facility in Thurston County, and the 120 beds would be added to the planning area's total bed count. As such, the need for an additional 120 beds must be demonstrated by the applicant. One component of evaluating need for additional SNF beds within a county is applying the nursing home bed need numeric methodology. The ratio of 40 beds per 1,000 population over 65 years of age (40/1,000) is used for projecting total bed need for SNFs in the state and within a planning area.

The methodology, outlined in WAC 246-310-360, is a four-step process. The first step requires a computation of the statewide and planning area specific estimated bed need for the projection year.[3] The second step requires a computation of the projected current supply ratio statewide and for each planning area. The third step requires a determination of the planning areas that will be under the established ratio, or over the established ratio in the projection year. The fourth, and final step, requires a comparison of the most recent statewide bed supply with the statewide estimated bed need.

Application of the first four steps of the methodology outlined above indicates that Washington State is projected to be under the 40/1,000 target ratio by 4,338 beds in year 2007—the projection year.

Step four provides further guidance if the current statewide bed supply is greater than or equal to the statewide estimated bed need, or if the current statewide bed supply is less than the statewide estimated bed need. Given that the current statewide bed supply is less than the statewide estimated bed need, the department must then determine the difference between the statewide estimated bed need and the statewide current bed supply, which is referenced as "statewide available beds." The methodology then requires a comparison of whether the "statewide available beds" is sufficient to allocate to each planning area under the establish 40/1,000 ratio enough beds to bring that planning area up to the established ratio. If there is not enough beds, the methodology directs the department to assign to each planning area under the established ratio a proportion of statewide available beds equal to the ratio of that planning area's bed need to reach the established ratio in the projection year. The proposed health planning area for this project is Thurston County. Application of this portion of step four to Thurston County yields 435 additional beds could be added to bring the planning area to the established ratio in the projection year.

To demonstrate need for an additional 120 beds within the county, MCMP provided calculations that conclude Thurston County is currently under the 40/1,000 target ratio. While comments were provided by both affected and interested persons in opposition to this project, none of the comments dispute the methodology's mathematic conclusion of need for additional beds within Thurston County.

In conclusion, the numeric methodology is a population based assessment to determine the baseline supply of nursing home beds within the state and a county to determine whether the existing number of beds is adequate to serve the elderly population. Based solely on the numeric methodology, the department would conclude that additional nursing home beds are justified in Thurston County in the projection year 2007.

[3] For nursing homes applications submitted in the 2004 concurrent review cycle, 2007 is the projection year.

B. Need (WAC 246-310-210)

Based on the source information reviewed, the department determines that the application is consistent with the applicable need criteria in WAC 246-310-210.

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need

WAC 246-310-210 requires the department to evaluate all CN applications on the basis of the population's need for the service and determine whether other services and facilities of the type proposed are not, or will not be, sufficiently available or accessible to meet that need. Additionally, subsection (6) identifies the process to be used to evaluate this sub-criterion. Specifically, if the state is below the statewide estimated bed need, the department shall determine the need for nursing home beds, including distinct part long-term care units located in a hospital licensed under chapter 70.41 RCW, based on the availability of:

1) other nursing home beds in the planning area to be served; and
2) other services in the planning area to be served. Other services to be considered include, but are not limited to: assisted living (as defined in chapter 74.39A RCW); boarding home (as defined in chapter 18.20 RCW); enhanced adult residential care (as defined in chapter 74.39A RCW); adult residential care (as defined in chapter 74.39A RCW); adult family homes (as defined in chapter 70.128 RCW); hospice, home health and home care (as defined in chapter 70.127 RCW); personal care services (as defined in chapter 74.09 RCW); and home and community services provided under the community options program entry system waiver (as referenced in chapter 74.39A RCW). The availability of other services shall be based on data which demonstrates that the other services are capable of adequately meeting the needs of the population proposed to be served by the applicant.

Services to be provided at MC-Lacey include skilled nursing, rehabilitation, and a variety of therapies. [source: Application, pp4-5] While the applicant asserts throughout its application that the community-based providers are not providing the same type of care that would be provided at MC-Lacey, the department must consider their availability and determine whether patients could be better served in those settings.

Skilled Nursing Facilities—7 SNFs representing 690 beds

As of the writing of this evaluation, Thurston County has 690 skilled nursing facility (SNF) beds distributed among six community-based SNFs (C-SNF) and one-hospital based SNF (H-SNF). Services provided at SNFs include skilled nursing services, including convalescent or chronic care, or both, for a period in excess of twenty-four consecutive hours. Convalescent and chronic care may include but not be limited to any or all procedures commonly employed in waiting on the sick, such as administration of medicines, preparation of special diets, giving of bedside nursing care, application of dressings and bandages, and carrying out of treatment prescribed by a duly licensed practitioner of the healing arts. It may also include care of mentally incompetent or acutely ill persons. [source: RCW 18.51]

Eligibility for Medicare and Medicaid skilled nursing facility services is governed by the Centers for Medicare and Medicaid Services (CMS). Medicare covers skilled nursing facility services for as long as a patient is eligible and the patient's physician orders the services. Eligibility requirements for coverage by Medicare includes a hospital stay for three consecutive days prior to being admitted into the skilled nursing facility; further the skilled care must be required on a daily basis and the services must be those that, as a practical matter, can only be provided in a skilled nursing facility on an inpatient basis. [source: CMS Handbook: Medicare Coverage of Skilled Nursing Facility Care]

Of the total of 690 beds at the SNFs in the county, 679 are currently licensed and 11 are banked under the alternate use provisions of RCW 70.38.111(8)(a) and WAC 246-310-395. RCW 70.38.111(8)(d) states:

> *"Nursing home beds that have been voluntarily reduced under this section* [RCW 70.38.111(8)] *shall be counted as available nursing home beds for the purpose of evaluating need under RCW 70.38.115(2) (a) and (k) so long as the facility retains the ability to convert them back to nursing home use under the terms of this section."*

As required above, the department must count all 690 beds as available in the community.

Thurston County's total of seven SNFs and the number of licensed and banked beds is shown in Table I below. [source: Certificate of Need Bed Supply Log, October 15, 2005]

Table I
Thurston County 2005 Bed Count by Skilled Nursing Facility

Name of Facility	# of Licensed Beds	# of Banked Beds	Total # of Beds
Capital Medical Center (*H-SNF*)	9	0	9
Evergreen Nursing & Rehab Center	124	11	135
Olympia Manor	28	0	28
Panorama City Convalescent & Rehab Center	155	0	155
Providence Mother Joseph Care Center	152	0	152
Puget Sound Healthcare Center	108	0	108
Roo-Lan Healthcare Center	103	0	103
Total # of Facilities = 7	**679**	**11**	**690**

To further assist in its determination whether patients proposed to be served by MCMP would also be candidates for the existing SNFs in the county, the department compared the applicant's proposed average nursing hours per patient day with the existing C-SNF's averages. It is noted that the comparison does not include the H-SNF associated with Capital Medical Center. Because that facility has elected to not participate in the Medicaid program, data for this facility is not included in the DSHS cost reports. While data for this facility is obtained through the department's CHARS data, nursing hours per patient day is not collected. The comparison of the applicant's proposed SNF and the six C-SNFs is summarized in Table II below. [source: Medicaid Cost Report data for years 2003 and 2004]

Table II
Average Nursing Hours Per Patient Day Comparison

	RN/PD	LPN/PD	NA/PD	Total NH/PD
MC-Lacey	0.481	0.616	2.005	3.102
Year 2003 Thurston County Averages	0.530	0.642	2.420	3.592
Year 2004 Thurston County Averages[4]	0.448	0.691	2.417	3.557

Based on the summary shown in Table II, the applicant's patients are comparable to the average patient accepted by the existing C-SNFs in the county. Further, when comparing MC-Lacey's proposed RN, LPN, and NA hours per patient day to each individual facility in the county, MC-Lacey closely compares with 2004 data for the patients .served at Evergreen Health and Rehab Center and Puget Sound Healthcare Center. Further, based on the nursing hours per patient day alone, MC-Lacey would typically serve a slightly higher acuity patient than Roo-Lan Healthcare

[4] Year 2004 data does not include patient days/occupancy for Olympia Manor.

Center; and a lower acuity patient than both Providence Mother Joseph Care Center and Panorama City. [source: Medicaid Cost Report data year 2004]

In summary, the department concludes that the patients proposed to be served by MC-Lacey would also be appropriate candidates for services by the existing C-SNFs in the county.

Home Health Services

Home health services means services provided to ill, disabled, or vulnerable individuals. Generally a home health patient is homebound, or normally unable to leave home unassisted.[5] Home health services include skilled nursing, home health aide, medical social work, a variety of therapies, and home medical supplies or equipment services. [source: RCW 70.127.010] Home health services are typically provided to patients discharged to their homes by a long-term care facility or hospital for a lower level of care.

Eligibility for Medicare and Medicaid home health services is also governed by CMS. Medicare covers home health services for as long as a patient is eligible and the patient's physician orders the services; however, skilled nursing care and home health aide services are only covered on a part-time or "intermittent" basis. This means there are limits on the number of hours per day and days per week that a patient may receive skilled nursing or home health aid services. Those limits include skilled nursing care needed fewer than seven days each week or less than eight hours each day over a period of 21 days. Medicaid may help with medical costs for some patients, however, to qualify for Medicaid, a patient must be considered a low income patient. [source: CMS Handbook: Medicare and Home Health Care]

As of the writing of this evaluation, Thurston County has six home health agencies, and of those, three are Medicare certified. Given that home health care is provided at the patient's residence, capacity for a home health agency is typically measured by its ability to retain or recruit additional staff to meet the needs of the agency's visits. Based on the information above, the department concludes that the home health setting may be appropriate for a number of patients described within the application.

Hospice Services

Hospice programs are designed to offer symptom and pain management to terminally ill patients, and emotional, spiritual, and bereavement support for the patient and family in the final stages of the patient's life. Hospice services may be provided either in the patient's home or within an assisted living or skilled nursing center. [source: RCW 70.127.010] The county also has two hospice agencies and both are Medicare certified. Based on this information, the department concludes that the hospice setting would be considered unsuitable for the majority of skilled nursing facility patients described within this application.

As of October 2005, there are 80 adult family homes operating at least 336 beds[6] within Thurston County. Adult family home means a residential home in which a person or persons provide personal care, special care, room, and board to more than one but not more than six adults who are not related by blood or marriage to the person or persons providing the services. [source: RCW 70.128.010] "Personal care" means both physical assistance and/or prompting and supervising the performance of direct personal care tasks as determined by the resident's needs. Personal care

[5] To be homebound means that leaving home takes considerable and taxing effort. [source: CMS Handbook: Medicare and Home Health Care]

[6] Of the 80 AFH, 11 would not disclose the number of beds licensed at the facility; as a result, 336 beds is an undercount of the total number of beds within the county.

services do not include assistance with tasks performed by a licensed health professional. "Special care" means care beyond personal care services as defined above. [source: WAC 388-76-540]

Additionally, as of October 2005, there are 13 boarding homes operating a total of 962 beds within the county. A boarding home means any home or other institution that provides board and domiciliary care to seven or more residents. "Domiciliary care" is defined as **1)** assistance with activities of daily living provided by the boarding home either directly or indirectly; or **2)** health support services, if provided directly or indirectly by the boarding home; or **3)** intermittent nursing services, if provided directly or indirectly by the boarding home. [source: WAC 388-78A-020]

In previous SNF applications reviewed by CN staff, representatives from the Department of Social and Health Services (DSHS) have stated *"on the average, these types of facilities [adult family homes and boarding homes] are usually about 85% occupied."* However, neither adult family homes nor boarding homes are required to report occupancy data to any regulatory or data gathering entity, which includes its own licensing agency--DSHS. Therefore, the basis for the 85% average occupancy within these two settings has been unavailable and unclear.

To assist in its determination of whether adult family homes or boarding homes are available to meet the needs of the SNF patients in the county, the department enlisted the services of The Gilmore Research Group (GRG) located in the Pacific Northwest. GRG provides research consultation, probability sampling, and data for analysis. For this project, GRG conducted telephone interviews with managers or people in positions of authority at adult family homes and boarding homes in Thurston County. The purpose of the interviews was to learn more about the capacity and limitations of these facilities as alternatives to nursing home services. [source: The Gilmore Research Group website and October 18, 2005, report, p1]

For Thurston County, GRG contacted 67 of the total of 80 adult family homes (or 83% of the total adult family homes) representing 336 beds and all 13 boarding homes (or 100% of the total boarding homes) representing 962 beds. A summary of the GRG research is shown below.

Adult Family Homes—67 homes representing 336 beds

Below is a breakdown of the payer sources accepted at the 67 homes contacted by GRG.

Payer Sources Accepted	# of AFHs	# of beds	% of Beds (336)
Both Medicare and Medicaid	49	238	71%
Medicare only (not included above)	2	11	3%
Medicaid only (not included above)	8	43	13%
Private Pay only	8	44	13%
Totals	**67**	**336**	**100%**

As shown in the chart above, of the 67 AFH contacted, 49 (or 73% of the total number of AFH) accept both Medicare and Medicaid patients which represents 238 or 71% of the total AFH beds. In addition to the 49 AFHs that accept both payer sources, 2 more homes would accept only Medicare patients, which increases the percentage of Medicare beds to 74% of the total. Another 8 AFH would accept only Medicaid patients, which increases the percentage of Medicaid beds to 84% of the total. As shown in the chart above, 8 AFHs, representing 44 beds, accept only private pay patients. Given that the majority of SNF patients are Medicare or Medicaid recipients, this portion of the evaluation will focus on the 59 homes that accept either Medicare or Medicaid patients.

GRG also requested the AFH representative to identify any limitations in the types of patients accepted into the facility. Examples of limitations identified by the AFH representatives include:

- non-smokers only;
- ambulatory patients only;
- no HIV/AIDS or terminally ill patients;
- no bariatric [obese] patients;
- no diabetic patients; and
- no mental health or violent behavior patients.

Of the 59 homes accepting either Medicare or Medicaid patients, only 15 offered services with no limitations—representing a total of 81 AFH beds. Further of the 15 facilities and 81 beds—only 7 beds were vacant at the time of the survey, which represents a 91% occupancy of the 15 facilities. Representatives of the 15 facilities stated that their current number of vacant beds, in most cases zero, is a typical representation of the facility's vacancy, or lack of vacancy. In summary, while a portion of SNF patients may be served in AFHs, the Thurston County AFHs that could serve the SNF patients have limitations or no vacancies.

Boarding Homes—13 homes representing 962 beds

Below is a breakdown of the payer sources accepted at the 13 homes contacted by GRG.

Payer Sources Accepted	# of BHs	# of beds	% of Beds (962)
Both Medicare and Medicaid	2	106	11%
Medicare only (not included above)	1	150	16%
Medicaid only (not included above)	9	656	68%
Private Pay only	1	50	5%
Totals	**13**	**962**	**100%**

As shown in the chart above, of the 13 BH contacted, 2 (or 15% of the total number of BH) accept both Medicare and Medicaid patients which represents 106 or 11% of the total BH beds. In addition to the 2 BHs that accept both payer sources, 1 more BH would accept only Medicare patients, which increases the percentage of Medicare beds to 27% of the total. Another 9 BH would accept only Medicaid patients, which increases the percentage of Medicaid beds to 79% of the total. As shown in the chart above, 1 BH, representing 50 beds, accepts only private pay patients. Given that the majority of SNF patients are Medicare or Medicaid recipients, this portion of the evaluation will focus on the 12 homes that accept either Medicare or Medicaid patients.

GRG also requested the BH representative to identify any limitations in the types of patients accepted into the facility. Of the 12 BH, 8 had limitations. Examples of limitations identified by the BH representatives include:

- ambulatory patients only;
- no patients requiring skilled nursing care;
- no bariatric [obese] patients; and
- no mental health or violent behavior patients.

Of the 12 boarding homes accepting either Medicare or Medicaid patients, only 4 offered services with no limitations—representing a total of 378 BH beds. Further, of the 4 facilities and 378 beds, 62 beds were vacant at the time of the survey, which represents an 84% occupancy of the 4 facilities. Representatives of the 4 facilities stated that their current number of vacant beds is a typical representation of the facility's vacancy, or lack of vacancy. In summary, as with the AFH

above, while a few SNF patients may be served in BHs, most SNF patients would not be candidates for the BH setting because of BH limitations and lack of vacancies.

To assist in its demonstration of need for an additional skilled nursing facility in Thurston County, MCMP provided documentation to support its three assertions restated below. [source: Application, pp8-12; December 1, 2004, supplemental information, pp3-7]

- population growth in the planning area is significant in all elderly population categories while nursing home bed supply has not increased appreciably in several years;
- existing nursing homes are fully occupied;
- nursing home bed need methodologies from several other states and from the American Health Care Association, when applied to Thurston County, also indicate a need for additional nursing home beds in the planning area.

Based on the documents provided by the applicant to support its above assertions, MCMP concluded that access to care in Thurston County is currently limited and families have little, if any, choice in selecting a nursing facility, but to choose the facility with the vacant bed. [source: Application, p12]

All six C-SNFs in Thurston County provided information in opposition to this project related to these criteria. [source: March 23, 2005, public comment and public hearing documents submitted by each facility] Additionally, comments in opposition were provided by the following four entities:

- Department of Social and Health Services, Aging and Adult Administration Division [source: December 16, 2004, public comment]
- Providence St. Peter Hospital in Lacey, physical medicine and rehabilitation director [source: May 23, 2005, public comment]
- Providence St. Peter Hospital in Lacey, patient discharge planner [source: May 23, 2005, public comment]
- Providence SoundHome Care & Hospice, a Medicare certified/Medicaid eligible home health and hospice agency authorized to service Thurston County [source: May 23, 2005, public comment]

In order to assess these comments and concerns and to examine skilled nursing care in Thurston County more closely, the department used data submitted by the applicant, data submitted in support of the application, and data submitted in opposition to the application. Further, the department reviewed historical cost reports obtained from DSHS. This information includes annual Medicaid cost report raw data and summaries for 2003 and 2004 for all Washington State SNFs--both community and hospital-based--eligible to provide Medicaid services for Washington State residents. Given that the skilled nursing facility associated with Capital Medical Center is not included in the DSHS cost report data, the department also reviewed 2003 and 2004 CHARS data related to that facility.[7] A summary of the department's review is shown below by topic, and excerpts of the comments provided in opposition are addressed by topic where appropriate.

Population growth in Thurston County

MCMP asserts that population growth in Thurston County is significant and nursing home beds have not increased in several years. The existing providers did not comment on this assertion made by the applicant.

[7] This facility has elected to not carry a Medicaid contract, and therefore, does not accept Medicaid patients.

To evaluate this assertion, the department obtained population data from the Office Financial Management (OFM) for both Washington State and Thurston County. In January 2002, OFM released new county and state projections for the Growth Management Act. The projection series starts with the year 2000 census as a base and uses actual growth trends through the 1990s and prior historical periods to develop county growth expectations. In January 2004, OFM published a tracking report to evaluate how the annual population estimates for 2001 through 2003 line up with the 2005 Growth Management Act projections.[8] The tracking report provided the following summaries regarding population growth in Washington.

- one-third of the counties are tracking closely--within one percent--of the 'intermediate' series range;[9]
- all but two counties (Franklin and Pend Oreille) are tracking within the high and low projection series range; and
- about 70% of the counties are tracking below their intermediate projection series.

The Thurston County graph within the OFM document shows that the county is tracking within the intermediate series and very close to the low series projection range.

On June 28, 2005, OFM provided a press release regarding Washington State growth. Within that press release, OFM indicates that Washington State's population has grown approximately 1.4%, in the past year, which is slightly higher than the 1.1 % growth in the previous year. Further, the document identified the fastest growing counties based on the percentage of change since the 2000 census. Those counties are Benton, Clark, Franklin, and San Juan. While Thurston County is not identified within this document as a fast growing county, it is ranked 8th in the state of the fastest growing counties. The chart below shows the pertinent population data for Thurston County compared with Washington State. [source: OFM data]

Area	2005 Population Estimate	% change from 2000-2005	# of persons 65 & older	% of persons 65 & older
Washington	6,256,400	6.15%	712,092	11.4%
Thurston County	224,100	8.08%	26,892	12.0%

As shown above, Thurston County's overall population growth is larger and its percentage of persons 65 and older is slightly higher when compared to the state.

The chart below compares Thurston County's growth with the four counties identified by OFM as the fastest growing counties -- Benton, Clark, Franklin, and San Juan. That comparison is shown below.

County	2005 Population Estimate	% change from 2000-2005	# of persons 65 & older	% of persons 65 & older
Thurston	224,100	8.08%	26,892	12.0%
Franklin	60,500	22.60%	4,538	7.5%
Clark	391,500	13.40%	39,150	10.0%
Benton	158,100	10.97%	16,601	10.5%
San Juan	15,500	10.11%	3,209	20.7%

As shown above, Thurston County's percentage of persons 65 and older is higher than all counties, with the exception of San Juan. Finally, the department compared Thurston County's population

[8] The full tracking report can be obtained at http://www.ofm.wa.gov/pop/index/htm#growth.
[9] Projections are provided by three series: low, intermediate, and high. Low series projections would project a slower growth than both the intermediate or high series. Under usual and normal circumstances, the CN Program bases its projections on the intermediate series.

growth to the two counties in the state with comparable 2005 total population--Yakima and Kitsap counties. That comparison is shown below.

County	2005 Population Estimate	% change from 2000-2005	# of persons 65 & older	% of persons 65 & older
Thurston	224,100	8.08%	26,892	12.0%
Kitsap	240,400	3.63%	26,685	11.1%
Yakima	229,300	3.02%	26,599	11.6%

As shown above, Thurston County's percentage of growth is considerably larger than both Kitsap and Yakima counties. While the percentage of persons age 65 and older is comparable for all three counties, the number persons 65 and older is larger for Thurston County than for Kitsap County even though Kitsap's total population is larger. Based on OFM data sources, the department concurs with the applicant regarding growth in the county.

Existing nursing homes are fully occupied

MCMP asserts that the existing facilities in the county are either fully occupied or operating at a high utilization. In response, the existing providers submitted extensive comments regarding the utilization of their facilities and asserted that the occupancy in the county is not high. The providers indicate that adequate beds are available to the residents and an additional provider in the county is not necessary.

As previously stated, there are 690 beds distributed among six C-SNFs and one H-SNF in Thurston County. Of the 690 beds, 679 are currently licensed and 11 are currently banked under alternate use. [source: Certificate of Need Bed Supply Log, October 15, 2005] RCW 70.38.111(8) allows an SNF to voluntarily reduce or "bank" a number of its licensed beds to provide alternative services or otherwise enhance the quality of life for its residents. Once approved, the beds that are banked are de-licensed by DSHS. Additionally, beds banked under this provision may be banked for four years, with an option to renew for another four years, for a maximum bed banking of eight years. To convert beds back to nursing home beds under these provisions, the SNF must:

1) maintain eligibility for the beds currently banked; and
2) provide a minimum of 90 days notice to the CN Program that it intends to re-license the beds.[10]

A review of Certificate of Need Program files reveals that the 11 beds currently banked under alternate use at Evergreen Nursing and Rehab Center in Olympia were banked on November 1, 2001. On September 9, 2005, the department approved Evergreen Nursing & Rehab Center's request to extend the bed banking for 6 of the 11 beds to November 1, 2009. On September 19, 2005, the department approved Evergreen's request to convert the remaining 5 beds back to skilled use. Once converted, Evergreen Nursing would be operating 129 beds and have 6 beds banked under alternate use that could be banked until November 1, 2009.

RCW 70.38.111(8)(d) requires the department to count beds banked under alternate use as available nursing home beds for the purpose of evaluating need for additional beds in CN applications. Given banked beds may be converted to skilled nursing use after a 90 day notice, it is reasonable to assume that they are, in fact, available. Further, these beds are counted in the numeric bed projection methodology, which projects 435 additional beds could be added to Thurston County to bring the planning area to the established 40/1,000 ratio in projection year 2007.

[10] Additional requirements for converting beds back to skilled nursing use are found in RCW 70.38.111(8).

For DSHS cost reporting purposes, facility occupancy is reported on the number of licensed beds within a facility. Tables III below summarizes the occupancy of licensed SNF beds in operation in years 2003 and 2004 at the total of seven SNFs in Thurston County. [source: Year 2003 and 2004 DSHS cost report data and Year 2003 and 2004 CHARS data]

Tables III
Thurston County Year 2003 Number of Beds and Average Occupancy

	# of Lic'd Beds	Bed Occp'y %	# of Lic'd Beds Available	Plus AU Banked Beds
Capital Medical Center TCU	9	69%	3	0
Evergreen Nursing & Rehab Center	119	96%	5	16
Olympia Manor	28	73%	8	0
Panorama City Convalescent & Rehab Center	155	95%	8	0
Providence Mother Joseph Care Center	152	96%	6	0
Puget Sound Healthcare Center	106	94%	6	8
Roo-Lan Healthcare Center	103	96%	4	0
Totals/Average Occupancy	**672**	**88.4%**	**40**	**24**

Thurston County Year 2004 Number of Beds and Average Occupancy

	# of Lic'd Beds	Bed Occp'y %	# of Lic'd Beds Available	Plus AU Banked Beds
Capital Medical Center TCU	9	68%	3	0
Evergreen Nursing & Rehab Center	124	97%	4	11
Olympia Manor	28	Facility closed in 2004 for replacement		0
Panorama City Convalescent & Rehab Center	155	93%	11	0
Providence Mother Joseph Care Center	152	96%	6	0
Puget Sound Healthcare Center	108	95%	5	0
Roo-Lan Healthcare Center	103	68%	33	0
Totals/Average Occupancy	**679**	**89.8%**	**62**	**11**

Capital Medical Center operates a 9-bed SNF within the hospital which means that patients admitted into the hospital for services that may require SNF care post procedure are discharged from the hospital and admitted into the SNF. Given that the facility does not participate in the Medicaid program for its SNF, these 9 beds could not be considered an option for all residents of the county.

For year 2003, Evergreen Nursing & Rehab Center had 16 beds banked under alternate use and Puget Sound Healthcare Center had 8 beds banked under alternate use, for a total of 672 licensed beds and 24 banked beds in the county. While the department considers the banked beds available, the occupancy percentages above are based on the 672 licensed beds in year 2003.

In year 2004, Evergreen Nursing & Rehab Center converted 5 of its 16 beds back to skilled nursing use and the remaining 11 beds continued to be banked through year 2004 and thus far in 2005. Further, in 2004, Puget Sound Healthcare converted 2 of its 8 banked beds back to use in the facility, and forfeited the remaining 6 banked beds. In year 2004, Puget Sound Healthcare operated 108 licensed beds with zero beds banked. Also in year 2004, Olympia Manor closed and began building a new facility at the existing site which was complete on February 3, 2005.[11] During the replacement project, patients were relocated to a sister facility in Tacoma, known as Park Rose Care Center. This closure and relocation process occurred October 2003, therefore Olympia

[11] RA project authorized under RA #041 issued June 16, 2003.

Manor's occupancy data for 2003 above would be reflective of approximately 10 months of operation.

The department also notes above that Roo-Lan Healthcare's year 2003 occupancy of 96% decreased to 68% in year 2004. The reason for this decrease is not addressed in the comments provided by the Roo-Lan Healthcare representative.

Additionally, shown in Tables III, in year 2003, with 24 beds banked under alternate use, Thurston County's average occupancy was 88%. In year 2004, with more beds licensed and only 11 beds banked under alternate use, the county occupancy increased by two percent, from 88% to 90%. Both occupancy percentages are above the statewide average for years 2003 and 2004 of 83% and 86%, respectively. For both years, Capital Medical Center operated below the average of the all other facilities in the county--with the exception of the facility undergoing renovation/replacement--Olympia Manor.

In conclusion, in addition to the 679 licensed and 11 banked SNF beds available in the county, the department determined an average of 7 AFH beds, and 62 BH beds could be available to the residents of Thurston County, for a total of 759 available SNF or alternatives beds available in the county. Calculating the county bed to population ratio of persons 65 and older, reveals that the county's ratio would increase from it current 25/1,000 to 27/1,000. Additionally, adding the 120 beds proposed in this project to the 759 available beds, for a total of 879 beds, brings the county's ratio to 32/1,000. Both ratios continue to be under the 40/1,000 ratio used for projecting total bed need for SNFs in the state and within a planning area.

Nursing home bed need methodologies from several other states and from the American Health Care Association, when applied to Thurston County, also indicate a need for additional nursing home beds in the planning area

MCMP asserts that additional beds should be added to the county because applying other methodologies from several other states and the American Health Care Association to Thurston County indicates a need for additional nursing home beds in the county. The existing providers did not comment on this assertion made by the applicant.

The program is required, by statute and rule, to consider a variety of information and apply a numeric methodology to determine need for additional skilled nursing beds in Washington State and within a specific planning area. Washington's own methodology required by statute and rules supercedes any other methodology from other states.

On the basis of the information provided during the review of this project and research by Certificate of Need staff, the department concludes that need for a 120-bed skilled nursing facility in Thurston County is supported by the data. Given the limited availability and accessibility of the existing providers in the county, the department concludes an additional SNF is necessary to meet the projected need in the community. As a result, the department concludes that this sub-criterion is met.

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

As previously stated, the subsidiary of MCMP currently operates a variety of health care facilities in Washington State. Through these health care facilities, MCMP provides health care services to

residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups. To demonstrate compliance with this sub-criterion, MCMP provided a copy of its draft Admission Agreement. A review of the draft agreement indicates that patients would appropriately be admitted to MC-Lacey provided that the patient was a candidate for nursing care. [source: December 1, 2004, supplemental information, Attachment 7]

Additionally, MCMP provided a copy of the Manor Care Resident Handbook, which is provided to each resident upon admittance to the facility. The handbook states that Manor Care will not discriminate in its admissions decisions based on race, color, religion, sex, national origin, age, mental or physical handicap or communicable or contagious disease. In addition, the resident handbook discusses the patient's right to dignity, respect and personal safety as a resident of MC-Lacey. [source: November 4, 2004, supplemental responses, Attachment 7]

To determine whether low income residents would have access to MC-Lacey, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. Given that MC-Lacey is not currently operating, a contract with Medicaid is not yet established. Documents provided in the application demonstrate that MCMP would establish the appropriate relationships with both Medicare and Medicaid for MC-Lacey.

While both documents above demonstrate the applicant's intent to comply with this sub-criterion, if this project is approved, to ensure MC-Lacey would continue to comply with this requirement, MCMP would have to agree to the following term.

> Prior to commencement of the project, Manor Care of America, Inc. shall provide to the department a copy of the Manor Care-Lacey's final Admissions Agreement. This agreement must state that all services at this facility will be accessible to all persons without regard to race, color, ethnicity, sexual preference, disability, national origin, age or inability to pay.

Based upon the information presented in the application and agreement to the above term, the department concludes all residents would have access to MC-Lacey, and this sub-criterion would be met.

C. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed, the department determines that the application is consistent with the applicable financial feasibility criteria in WAC 246-310-220.

(1) *The immediate and long-range capital and operating costs of the project can be met.*

As stated earlier, the estimated capital expenditure for this project is $11,871,545, of which 57% is related to constructions costs; 14% is related to land purchase; 13% is related to equipment costs; 7% is related to corporate overhead; 5% is related to state sales tax; and the remaining 4% is related to fees and real estate taxes. [source: January 18, 2005, supplemental information, Appendix E]

To determine whether MC-Lacey would meet its immediate and long range operating costs, the department evaluated projected balance sheets for the first three years of operation as a 120 bed facility. A summary of the balance sheets is shown in Table IV on the following page. [source: Application, Appendix 10; Appendix 11 Schedule B]

Tables IV
Manor Care - Lacey Balance Sheet for Projected Years 2008-2010

Year 2008

Assets		Liabilities	
Total Current Assets	$ 261,110	Total Current Liabilities	$ 172,236
Fixed Assets	$ 11,915,700	Other Liabilities	$ 11,863,243
Other Assets	($ 439,820)	**Total Liabilities**	**$ 12,035,479**
		Equity	($ 298,489)
Total Assets	**$ 11,736,990**	**Total Liabilities and Equity**	**$ 11,736,990**

Year 2009

Assets		Liabilities	
Current Assets	$ 597,317	Current Liabilities	$ 350,411
Fixed Assets	$ 11,975,700	Other Liabilities	$ 11,838,659
Other Assets	($ 445,820)	**Total Liabilities**	**$ 12,189,070**
		Equity	($ 61,873)
Total Assets	**$ 12,127,197**	**Total Liabilities and Equity**	**$ 12,127,197**

Year 2010

Assets		Liabilities	
Current Assets	$ 862,809	Current Liabilities	$ 492,430
Fixed Assets	$ 12,260,700	Other Liabilities	$ 11,586,225
Other Assets	($ 474,360)	**Total Liabilities**	**$ 12,078,655**
		Equity	$ 570,494
Total Assets	**$ 12,649,149**	**Total Liabilities and Equity**	**$ 12,649,149**

In addition to the projected balance sheets provided above, the applicant also provided its Statement of Operations for years 2008 through 2010 as a 120 bed facility. [source: Application, Exhibit 11, Schedule C] A summary of the Statement of Operations is shown in Table V below.

Table V
Manor Care - Lacey Statement of Operations Summary
Projected Years 2008 through 2010

	Year One (2008)	Year Two (2009)	Year Three (2010)
# of Beds	120	120	120
# of Patient Days	11,826	28,470	41,610
% Occupancy	27%	65%	95%
Net Revenue*	$ 2,703,467	$ 6,508,347	$ 9,512,199
Total Expense	$ 2,887,213	$ 5,538,573	$ 7,680,047
Net Profit or (Loss)	($ 183,746)	$ 969,774	$ 1,832,152
Net Revenue per patient day	$ 228.60	$ 228.60	$ 228.60
Total Expenses per patient day	$ 244.14	$ 194.54	$ 184.57
Net Profit or (Loss) per patient day	($ 15.54)	$ 34.06	$ 44.03

*Includes deductions for bad debt and contractual allowances

As shown in Table V above, MCMP anticipates it will operate MC-Lacey at a loss in the first year of operation, however, MCMP expects the 120-bed SNF would operate at a profit by the end of year two.

In Washington State, Medicaid nursing facility rates are set by the Nursing Home Rates Section of the Office of Rates Management part of the Aging and Disability Services Administration of the Department of Social and Health Services. Medicaid rates for long term care nursing facilities are set individually for each specific facility. Rates are based generally on a facility's costs, its occupancy level, and the individual care needs of its residents. The Medicaid payment rate system does not guarantee that all allowable costs relating to the care of Medicaid residents will be fully reimbursed. The primary goal of the system is to pay for nursing care rendered to Medicaid-eligible residents in accordance with federal and state laws, not to reimburse costs--however defined--of providers. A facility's overall Medicaid rate is comprised of rates for the following seven separate components:

- Direct care - nursing care and related care provided to residents
- Therapy care - speech, physical, occupational, and other therapy
- Support services - food and dietary services, housekeeping, and laundry
- Operations - administration, utilities, accounting, and maintenance
- Variable return - an incentive payment for relative efficiency
- Property - depreciation allowance for real property improvements, equipment and personal property used for resident care
- Financing allowance - return on the facility's net invested funds i.e., the value of its tangible fixed assets and allowable cost of land
  [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

For existing nursing homes, the component rates are based on examined and adjusted costs from each facility's cost report. Direct care, therapy care, support services, operations and variable return component rates for July 1, 2001, through June 30, 2004, are based on 1999 cost reports. Property and financing allowance components are rebased annually. For new nursing homes, such as this project, the initial Medicaid rate is set using a peer group review. [source: DSHS WAC 388-96-710(3)]

All component rates require, directly or indirectly, use of the number of resident days--the total of the days in residence at the facility for all eligible residents--for the applicable report period. Resident days are subject to minimum occupancy levels. Effective July 1, 2002, the minimum occupancy for direct care, therapy care, support services, and variable return component rates is 85%; for operations, financing allowance, and property component rates, the minimum occupancy rate is 90%.[12] If resident days are below the minimum, they are increased to the imputed occupancy level, which has the effect of reducing per resident day costs and the component rates based on such costs. If the actual occupancy level is higher than the minimum, the actual number of resident days is used. [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

Information obtained from the Office of Rates Management within DSHS indicates that MC-Lacey's Medicaid reimbursement rate would be approximately $171 per patient day. Within the pro forma Statement of Operations, MCMP projected the reimbursement rate to be $147.20; therefore, the department concludes that the estimated revenues in Table VI are reasonable. The department compared the estimated expenses for MC-Lacey to the annual expenses of the existing SNF's in Thurston County, and that comparison revealed that the estimated expenses in Table V are also reasonable. [source: February 15, 2005, DSHS summary review and 2003 cost report summaries]

To further analyze short-term and long-term financial feasibility of nursing home projects and to assess the financial impact of a project on overall facility operations, the department uses a financial

[12] For essential community providers--i.e., facilities at least a forty minute drive from the next closest nursing facility--the minimum occupancy is set at 85% for all components in recognition of their location in lesser-served areas of the state. MC-Lacey would not meet the definition of an essential community provider.

ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios utilized are: **1)** current assets to current liabilities; **2)** current and long-term liabilities to total assets; **3)** total operating expense to total operating revenue; and **4)** debt service coverage ratio. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. Table VI below summarizes the projected financial ratios for MC-Lacey. [source: Application, Exhibit 12]

Table VI
MC-Lacey's Projected Financial Ratios

RATIO	GUIDELINE:	*	Year 1 2008	Year 2 2009	Year 3 2010
Current Ratio	1.8-2.5	Above	1.52	1.70	1.75
Assets Financed by Liabilities	.60-.80	Below	0.01	0.03	0.04
Total Operating Expense to Total Operating Revenue	1.0	Below	1.18	0.94	0.89
Debt Service Coverage	1.5-2.0	Above	N/A	N/A	N/A

*A project is considered more feasible if the ratio is above or below the value/guideline as indicated.

The applicant provided the following statement in reference to the ratios: [source: Application, Exhibit 12]

"Due to the accounting of interunit transactions between the facility and the Corporate entity, the true value of some of the facilities assets and liabilities are not accurately represented,(i.e. the facility does not keep its own cash, therefore they show a minimal cash balance). This obviously affects the ratio calculations shown above".

As shown in Table VI above, the current ratio is slightly below Washington State's average in the first three years of operation. This means that the facility's total current liabilities would be slightly higher than the usual; however, given the cost to establish a new facility, the ratio is not unreasonable. The assets financed by liabilities ratio of MC-Lacey is favorably below the state average, and the total operating expense to total operating revenue, is also favorably below the state average by the end of the third year of operation. As the financing for this project is a cash transaction, the debt service ratio is not applicable. Therefore, the department concludes MC-Lacey's financial ratios, as illustrated in Table VII, demonstrate that the project is financially feasible.

Based on the financial information above, the department concludes that the long-term capital and operating costs of this project would be met. This sub-criterion is met.

(2) *The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.*

The per patient day costs were compared to the year 2003 and 2004 costs of the six C-SNFs in Thurston County. On the basis of that comparison, MC-Lacey's per patient day costs are slightly higher than the other six, however, MC-Lacey's costs do not appear to be unreasonable. [source: 2003 and 2004 DSHS cost report summaries] This sub-criterion is met.

(3) *The project can be appropriately financed.*

As stated in the project description portion of this evaluation, the estimated capital expenditure for this project is $11,871,545. A breakdown of the capital expenditure is shown in the chart on the following page. [source: January 18, 2005, supplemental information, Appendix F]

Item	Amount
Construction Costs	$ 6,734,270
Land Purchase & Site Preparation	1,680,545
Equipment (Fixed and Moveable)	1,571,035
Corporate Overhead	871,100
Washington State Sales Tax	586,795
Fees	402,800
Real Estate Tax	25,000
TOTAL	**$ 11,871,545**

To demonstrate compliance with this sub-criterion, the applicant provided a copy of the draft Purchase Agreement for the site of MC-Lacey at 4528 Intelco Loop Southeast. [source: January 18, 2005, supplemental information, Appendix B] The agreement identifies the costs for the land and allows MCMP to retain the site up to 210 days after a Certificate of Need is issued before the Purchase Agreement must be executed. [source: Draft Purchase Agreement, Section 14] If this project is approved, the department would attach a term to the approval requiring the applicant to provide a copy of the executed Purchase Agreement.

The source of financing for the project will be from Manor Care, Inc. cash reserves. [source: January 18, 2005, supplemental information, Appendix G] To demonstrate compliance with this sub-criterion, MCMP provided Manor Care, Inc's most recent two-year historical financial documentation. [source: Application, Exhibit 10] Those documents confirm that Manor Care, Inc. currently has the funds to finance the project, and this project would not adversely affect the financial stability of Manor Care, Inc.

As of the writing of this evaluation, Manor Care, Inc. or one of its subsidiaries has four projects under Certificate of Need review in Washington State. Of those four projects, two propose to establish new 120 bed SNFs--one in Clark County and this project in Thurston County; the remaining two projects each propose to add beds to an existing SNF--a 20 bed addition in Pierce County and a 27 bed addition in Snohomish County. Within all four applications, Manor Care, Inc. proposes to fund all four projects through its cash reserves. When combined, these four projects total to $30,553,820.

To evaluate whether Manor Care Inc. has the funds available for Thurston County project, and its other projects proposed in Washington State, the department reviewed Manor Care, Inc.'s most recent consolidate balance sheet for year 2004. [source: Manor Care, Inc. website] A summary of the balance sheet is shown below.

Year 2004

Assets		Liabilities	
Current Assets	$ 540,367,000	Current Liabilities	$ 402,254,000
Fixed Assets	$ 1,495,152,000	Other Liabilities	$ 954,285,000
Other Assets	$ 305,179,000	**Total Liabilities**	**$ 1,356,539,000**
		Equity	$ 984,159,000
Total Assets	**$ 2,340,698,000**	**Total Liabilities and Equity**	**$ 2,340,698,000**

This project's costs of $11,871,545 represent .51% of Manor Care, Inc.'s total assets, and 36% of its $32,915,000 in cash and cash equivalents. For all four projects currently under review in Washington State, $30,553,820 represents 1.3% of the total assets, and 93% of Manor Care, Inc.'s cash and cash equivalents.

Based on the above information, the department concludes that funding for this project is available based on the 2004 financial data. At this time, while Manor Care, Inc has several projects undergoing construction, renovation, or modification, it appears that its Washington State projects could be funded. This sub-criterion is met.

D. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed, the department determines that the application is consistent with the applicable structure and process of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

As previously stated, Manor Care, Inc. is the second largest provider of long term services in the nation, owning/operating over 300 nursing homes and assisted living facilities in 32 states through its subsidiaries. [source: Manor Care Website at www.hcr-manorcare.com] For this project, MCMP proposes to recruit approximately 116 FTEs to staff the new 120-bed facility. Table VII below shows the breakdown of FTEs [source: Application, p23]

Table VII
MC-Lacey Projected FTEs

FTE	Total
RNs	9.6
LPN	12.3
Nurses Aides & Assistants	40.0
Dietitians	1.0
Aides	10.1
Administrator	1.0
Activities Director & Assistant	2.0
In-Service Director (RN)	1.0
Director of Nursing & Assistant	2.0
Clerical	3.5
Housekeeping/maintenance	6.9
Laundry	3.5
Physical Therapists & Aides	5.5
Occupational Therapist & Aides	3.5
Medical Records	1.0
Social Worker	3.0
Plant Engineer	1.0
Others[13]	9.4
Total FTE's	**116.3**

As shown in Table VII above, MCMP expects to recruit approximately 116 FTEs for the new 120 bed SNF. Additionally, MCMP provided job descriptions for key staff, such as medical director, administrator, administrative director of nursing services, physical therapists, etc. The applicant states that it has developed over 100 new facilities in the past 20 years, and has never had difficulty recruiting staff for a new facility. MCMP would offer transfer opportunities to employees and through its career ladder programs, has the ability to offer promotion to nurses from existing MCMP facilities to staff this new center. MCMP expects its recruitment of staff to have little impact on existing

[13] Other FTEs include human resource director, speech therapist, admission coordinator, case manager, and nurse specialists

providers because the facility would grow slowly over three years and any impact would not be sudden or unmanageable. [source: Application, p23; December 1, 2004, supplemental information, p14 and Attachment 11]

Based on the information provided in the application, the department concludes that MCMP provided a comprehensive approach to recruit and retain staff necessary for the new SNF. Additionally, as previously stated, the department compared years 2002 and 2003 average nursing hours per patient day of existing Thurston County C-SNFs with the applicants proposed nursing hours per patient day. That comparison revealed that MC-Lacey's projected nursing hours per patient day are comparable to the county's average. [see Table II within this evaluation.]

Based on the above evaluation and information provided in the application, the department concludes that qualified staff can be recruited. This sub-criterion is met.

(2) *The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.*

Manor Care, Inc. is an established provider of SNF services in Washington State, as such; some ancillary and support services are already established. MC-Lacey would participate in the corporate national contract for pharmacy, IV therapy and radiology services. The application identified the remaining ancillary and support services required and recognized that local providers had not yet been contacted. If this project is approved, MCMP stated that local providers *"will be contacted at the appropriate time to establish contracts for services."* [source: Application, page 24 and Exhibits 16 & 17]

As indicated above, some ancillary and support services will be provided through a national contract with Manor Care, Inc. and some will be provided by community providers in Thurston County. Based on the information provided in the application, the department concludes that MCMP intends to meet this requirement; however, if this project is approved, to ensure that appropriate agreements will be established, the applicant must agree to the following term:

> Prior to providing services at MC-Lacey, the applicant will provide functional plans outlining the services to be provided through a national contract with Manor Care, Inc. and those that would be provided within Thurston County.

Provided that the applicant would agree to the term outlined above, the department would conclude that there is reasonable assurance that MC-Lacey would have appropriate ancillary and support services, and this sub-criterion would be met.

(3) *There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.*

As stated in the project description portion of this evaluation, Manor Care of Meadow Park, Inc. is located in Delaware and is the operating group of Manor Care, Inc, an owner and operator of long term health care centers in the United States. As of the writing of this evaluation, Manor Care, Inc. has over 500 skilled nursing centers, assisted living facilities, outpatient rehabilitation clinics, and hospice and home health offices in 33 states.[14] The majority of the health care facilities are operated under the names of, or dba of, Manor Care, Arden Courts, Springhouse, and Heartland.

[14] States include: Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, North Carolina, North Dakota, Nevada, New Jersey, New Mexico, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, and Wisconsin.

To evaluate this sub-criterion, the department requested quality of care histories from the states where HCR Manor Care, or any of its subsidiaries, owns or operates healthcare facilities--which represents a total of 571 health care facilities. Of the 33 states, 20 states provided detailed documentation related to the quality care history and 13 states did not respond.[15] The 20 states that responded represent 440 healthcare facilities--or 77% of the 571 facilities owned or operated by HCR Manor Care, or its subsidiaries. Of the 20 states that responded, nine indicated significant non-compliance issues[16] at one or more of the healthcare facilities operated by HCR Manor Care or one of its subsidiaries.[17] There are a total of 121 facilities within the nine states, and of those, 24 facilities--or 20%--indicated significant non-compliance issues that were subsequently corrected by HCR Manor Care or one of its subsidiaries. Further, the majority of the significant non-compliance citations related to isolated incidences and did not represent immediate jeopardy to patients. [source: compliance survey data provided by each state agency] According to documents provided by the out-of-state licensing agencies, HCR Manor Care resolved the significant non-compliance issues and no disciplinary actions were taken by the out-of-state surveying agencies.

As stated in the project description portion of this evaluation, HCR Manor Care owns or operates four skilled nursing facilities and Heartland owns or operates two in-home services agencies in Washington State. A review of the quality of care histories from those six healthcare facilities for years 2001 through 2004 revealed no significant non-compliance issues at any of the six facilities.

Based on the above information, the department concludes that there is reasonable assurance that MCMP would operate MC-Lacey in conformance with applicable state and federal licensing and certification requirements, and this sub-criterion is met.

(4) *The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.*

With this project, MCMP anticipates it will promote continuity in the provision of health care to the residents of Thurston County and surrounding areas by improving local access to health care services for a growing community. Given that the new SNF will also be part of the Manor Care, Inc. healthcare system, MCMP will participate in the existing working relationships with local nursing homes and other health services in the service area. Therefore, this sub-criterion is met.

(5) *There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.*

This sub-criterion is addressed in sub-section (3) above and is considered met.

[15] States that did not respond: Arizona, Georgia, Kentucky, Maryland, Missouri, North Dakota, New Jersey, New Mexico, Oklahoma, South Carolina, South Dakota, Texas, and Virginia.

[16] For purposes of this evaluation, 'significant' non-compliance issues are defined as: 1) substandard care citations resulting in F-tags with scope and severity level "H" or above; 2) immediate jeopardy citations F-tags with scope and severity level "J" or above; and 3) surveys resulting in state or federal remedies (typically received for continued non-compliance beyond timeframes allowed in state or federal regulations).

[17] States indicating significant non-compliance issues: California, Colorado, Connecticut, Indiana, Iowa, Michigan, Nevada, Tennessee, and West Virginia

E. Cost Containment (WAC 246-310-240)

Based on the source information reviewed, the department determines that the application is consistent with the applicable cost containment criteria in WAC 246-310-240.

(1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.*

Before submitting this application for review, MCMP considered and dismissed three options. Those options and the reasons they were rejected are discussed below. [source: Application, pp25-26]

Option 1-Do nothing

MCMP states it dismissed this option because the average occupancy of the existing facilities in Thurston County is 95% and the 85+ population is expected to grow by 19% between 2003 and 2008. This option would force those needing skilled care in the future to seek care at an inappropriate level (assisted living) or receive no care. MCMP further states that this option reduces competition among nursing home providers because they could remain fully occupied without competing.

Option 2-Purchase or lease an existing building to convert to nursing home care.

MCMP asserts that this option was dismissed because there are no buildings in the Olympia area that could be appropriately converted to nursing home use. Further, the increased operating costs that could result from operating a converted building (as opposed to new construction) could make this option less financially attractive.

Option 3-Expansion of existing facilities

MCMP states that none of the current providers filed a letter of intent to add beds to their facility to address the need. The applicant further states that prudent planning and planning implementation does not rely on waiting for a particular provider to take action.

The department notes that while the applicant identified the three options above, expansion of existing facilities (Option 3) is not a decision that can be made by MCMP. Therefore, the department does not consider it to be an alternative for MCMP.

Further, both options 2 and 3 require prior Certificate of Need review and approval. For Certificate of Need applications for additional skilled nursing beds, regardless of whether it is a bed addition to an existing facility or the establishment of a new facility, an applicant must demonstrate that need exists for the additional bed capacity and existing providers are neither available nor accessible.

For this project, when applying the numeric methodology, the department and the applicant both concluded that Thurston County was under the target 40/1,000 bed to population ratio. As previously stated, the numeric methodology is a population based assessment to determine the baseline supply of nursing home beds within the state and a county to determine whether the existing number of beds is adequate to serve the elderly population. The applicant must also demonstrate that the existing providers are not available or accessible to meet the skilled nursing need of the county [WAC 246-310-210(1)]. Documents within the application met this sub-criterion. Therefore, the department concludes that this sub-criterion is met.

(2) In the case of a project involving construction:

(a) The costs, scope, and methods of construction and energy conservation are reasonable;

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was met, therefore, this sub-criterion would also be considered met.

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was met, therefore, this sub-criterion would also be considered met.

Based on the above evaluation, the department concludes that costs, scope, and methods of construction and energy conservation are reasonable, and this sub criterion is met.